

# WHAT'S NEXT FOR FASTER PAYMENTS IN THE UNITED STATES

**Faster payment services are gaining momentum around the world as technology advances and competition spurs innovation. The United States is among the countries seeking to achieve ubiquitous access to safe, efficient faster payments. As the U.S. central bank, the Federal Reserve has now published a request for public comment on two potential services it could offer to facilitate real-time interbank settlement of faster payments.**

By Esther L. George, President and Chief Executive Officer,  
Federal Reserve Bank of Kansas City

The U.S. payment system continues to evolve to meet the needs of an increasingly global, interconnected and information-driven economy. Today, faster payments services are emerging that allow individuals and businesses to pay one another instantly, 24 hours a day, seven days a week, 365 days a year. These faster payment services provide significant economic benefits to individuals, households and businesses – helping them manage money, avoid burdensome fees, and reduce credit and liquidity risk.

However – despite tremendous innovation and the best efforts of a wide array of U.S. payments stakeholders – there's still work to be done to ensure these benefits are available to all. We continue to facilitate industry efforts to establish a faster payments governance organization, in addition to considering whether new or enhanced Federal Reserve settlement or other payment services would help achieve ubiquitous, nationwide access to safe and efficient faster payments in the United States.

We believe the Federal Reserve is well-positioned to encourage broader bank participation and faster payments capabilities, instill public confidence in those capabilities, and help achieve access to faster payments for all. These goals align with the Federal Reserve's mission to foster the stability, integrity and efficiency of the nation's monetary, financial and payments systems so as to promote optimal macroeconomic performance. In payments, one of our most significant roles is to provide mechanisms for the settlement of payment transfers between banks, and we operate check, ACH and wire transfer systems. Since its inception, the Fed has been at the center of fundamental changes to the U.S. payment system, including early adoption of ACH and the transition to nearly all-digital check processing.

## Faster payments evolution

The U.S. payment system effectively supports the largest economy in the world and has a long history of evolving to meet changing needs. In 2013, the

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Federal Reserve initiated a broad improvement collaboration initiative with payment stakeholders. Since then, we’ve worked in tandem with the industry to advance payment speed, security, efficiency, cross-border access and industry collaboration.

This collaborative effort has led to a number of significant results, including:

- The formation of a formal community of 4,500 payments stakeholders who actively engage on FedPayments Improvement initiatives, both online and in person. Just this month, nearly 250 of these community members participated in a Fed-hosted event in Chicago to further advance the dialogue on payment improvement.
- The publication of a draft proposal of a governance organization expected to be established this year as the U.S. Faster Payments Council. This draft has already sparked widespread industry discussion of the role such an entity could play in advancing faster payments in the United States.
- An assessment of payments security and fraud mitigation needs and the development of a plan to better define and measure fraud-related issues.

#### **Options to facilitate real-time interbank settlement of faster payments**

While these are all positive steps, more is needed. For example, while different types of faster payments are emerging in the United States, interbank settlement for some of these payments can still take days to be final. Aligning settlement speed to the real-time nature of the underlying payment would support our goal of ubiquitous faster payments and provide the most safe, efficient foundation for the next generation of U.S. payment services.

Informed by the experience of faster payments systems in other countries, as well as informal discussions with U.S. payment stakeholders, the Federal Reserve System Board of Governors published a Federal Register Notice this month to seek public input on two potential actions the Federal

Reserve could take to facilitate real-time interbank settlement of faster payments. The publication is available online at [www.fedpaymentsimprovement.org](http://www.fedpaymentsimprovement.org). The Board seeks feedback on all aspects of the discussion presented in this notice, as well as the specific questions posed at the end of the notice. Based on stakeholder feedback and further analysis, we’ll determine next steps, which may include implementing either or both services or no action.

The first potential action we’re considering is for the Federal Reserve to offer a service for 24/7 real-time gross settlement (RTGS) of faster payments that would complete the interbank settlement of individual payments immediately, on any day, and at any time of the day. Real-time settlement for faster payments avoids interbank settlement risk by aligning the speed of interbank settlement with the speed of the underlying payments. RTGS models are employed by the Reserve Bank of Australia and in the soon-to-launch European Central Bank TARGET instant payments settlement (TIPS) system.

We’re also considering a liquidity management tool that would enable transfers between Federal Reserve accounts at any time of day or night to support faster payment services, whether provided by the private sector or the Reserve Banks. The Reserve Banks could extend the operating hours of an existing service or develop a new service. The liquidity tool would enable fund movement during non-standard business hours between banks’ master accounts at the Reserve Banks and an account (or accounts) at the Reserve Banks used to conduct or support real-time settlement of faster payments.

One thing has become very clear in our efforts to lead and support the United States’ move toward a faster, more secure and efficient U.S. payment infrastructure. Our progress depends on the insights and collaboration of all payment stakeholders who touch the U.S. payment system – and we have already benefited from the experiences of other countries that have achieved their faster payments goals. We will learn more and look forward to sharing our experience in continued conversations throughout the United States and around the world.

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